

Message Text

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14-11
ORIGIN EB-03

INFO OCT-01 EA-06 ISO-00 L-01 SSO-00 SS-14 INR-05 INRE-00

SP-02 OES-02 /034 R

DRAFTED BY EB:ORF:FSE:SWBOSWORTH:LER

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EB/ORF - MR. KATZ

L - MR. SCHWEBEL

EA - MR. EDMOND

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FM SECSTATE WASHDC

TO AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L STATE 044058

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LIMDIS

E.O. 11652: GDS

TAGS:ENRG

SUBJECT: IEA - MITI PROPOSAL ON GOVERNING BOARD DECISION

REF: TOKYO 2370

1. PLEASE PASS FOLLOWING COMMENTS ON MITI PROPOSAL TO
TOYONAGA, DIRECTOR, INTERNATIONAL RESOURCES DIVISION,
MITI FROM BOSWORTH, DIRECTOR, EB/FSE. THESE ARE INTENDED
TO SUPPLEMENT COMMENTS WHICH BOSWORTH MADE DURING TELEPHONE
CONVERSATION ON FEBRUARY 25. YOU SHOULD NOTE THAT THESE
ARE PRELIMINARY AND INFORMAL COMMENTS WHICH BOSWORTH HAS
DISCUSSED WITH ASSISTANT SECRETARY ENDERS. BEGIN TEXT :

2. WE ARE PLEASED THAT MITI IS GIVING SERIOUS AND POSITIVE
CONSIDERATION TO US PROPOSALS FOR A COORDINATED SYSTEM OF
IEA COOPERATION IN THE ACCELERATED DEVELOPMENT OF NEW
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ENERGY SUPPLIES. WE HAVE NO SERIOUS PROBLEMS WITH THE

SUBSTANCE OF THE PREAMBULAR LANGUAGE IN THE DRAFT MITI PROPOSAL FOR A GB DECISION. WE AGREE THAT IT SHOULD RECOGNIZE NEED FOR OVERALL EQUITY OF COSTS AND BENEFITS WITHIN COORDINATED SYSTEM. IT SHOULD ALSO REAFFIRM OUR DESIRE TO WORK FOR A CONSTRUCTIVE DIALOGUE WITH THE OIL EXPORTING COUNTRIES. IN ADDITION, WE AGREE THAT IEA SYSTEM

SHOULD BE KEYED TO OUR COMMON COMMITMENT TO REDUCE DEPENDENCE ON IMPORTED OIL BUT THAT IT SHOULD NOT RESTRICT JAPANESE EFFORTS TO INCREASE IMPORTS OF OIL FROM NON-OPEC SOURCES. (WE ARE REALLY CONCERNED WITH REDUCING OUR VULNERABILITY AND JAPAN'S DIVERSIFICATION OF SOURCES OF IMPORTS CONTRIBUTES TO THIS AIM.)

3. HOWEVER, WE MUST SAY, IN ALL FRANKNESS, THAT PARAGRAPHS 1-4 OF THE DRAFT MITI PROPOSAL FOR A GB DECISION DO NOT IN OUR VIEW MEET IEA NEEDS, EITHER IN TERMS OF AGREEMENT IN PRINCIPLE ON HOW WE WILL COOPERATE, OR IN TERMS OF PREPARING FOR DIALOGUE WITH PRODUCERS. WE BELIEVE STRONGLY THAT BEFORE THE PREPARATORY MEETING THE IEA COUNTRIES MUST NOT ONLY HAVE AGREED THAT WE ARE GOING TO COOPERATE BUT THAT WE MUST ALSO HAVE AGREED IN PRINCIPLE ON THE BASIC ELEMENTS OF OUR COORDINATED SYSTEM.

4. THEREFORE, WE BELIEVE THAT GB DECISION MUST INDICATE CLEARLY THAT WE HAVE ALL AGREED IN PRINCIPLE THAT:

(1) WE WILL NOT ALLOW THE PRICE AT WHICH IMPORTED OIL IS SOLD WITHIN OUR ECONOMIES TO FALL TO LEVELS AT WHICH OUR EFFORTS TO REDUCE OUR DEPENDENCE AND VULNERABILITY THROUGH CONSERVATION AND THE DEVELOPMENT OF NEW SUPPLIES WOULD BE DISRUPTED AND THAT WE WILL ESTABLISH A COMMON MINIMUM LEVEL OF PRICE PROTECTION;

(2) WE ARE DETERMINED TO COOPERATE IN PROVIDING SPECIFIC INCENTIVES TO INVESTMENT ON A PROJECT BY PROJECT BASIS; AND

(3) THAT WE WILL COOPERATE IN ENERGY R&D, INCLUDING THE CONFIDENTIAL

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UNDERTAKING OF JOINT PROJECTS.

5. WE RECOGNIZE THAT QUESTIONS OF ACCESS TO INVESTMENT OPPORTUNITIES AND ACCESS TO PRODUCTS DEVELOPED UNDER THE COORDINATED SYSTEM ARE IMPORTANT TO JAPAN AND TO OVERALL BALANCE OF COSTS AND BENEFITS WITHIN THE SYSTEM. WE ARE PREPARED, THEREFORE, TO EXPLORE THESE SUBJECTS IN A CONSTRUCTIVE SPIRIT TO DETERMINE WHAT UNDERTAKINGS

OR COMMITMENTS MIGHT BE FEASIBLE AND APPROPRIATE FOR THE COORDINATED SYSTEMS AND WE AGREE THAT THE GB DECISION SHOULD CONTAIN SOME REFERENCE TO THESE MATTERS. (IN FACT, OUR PROPOSED FUELS PRODUCTION CONSORTIUM IS DESIGNED TO GIVE JAPAN AND OTHER IEA COUNTRIES THE OPPORTUNITY TO PARTICIPATE DIRECTLY IN ENERGY PROJECTS IN THE US.)

6. AT SAME TIME, HOWEVER, WE SHOULD RECOGNIZE THAT ALL OF US STAND TO BENEFIT DIRECTLY FROM ACCELERATED DEVELOPMENT OF NEW SUPPLIES IN OTHER IEA COUNTRIES SINCE THIS WILL HAVE VERY POSITIVE IMPACT ON WORLD SUPPLY AND DEMAND BALANCE. ALSO, ALL IEA MEMBERS WILL BENEFIT FROM DEVELOPMENT OF SUCH NEW SUPPLIES IN TERMS OF SECURITY SINCE WE ARE ALREADY COMMITTED TO SHARE OIL IN AN EMERGENCY UNDER THE IEP.

7. WE COULD NOT AGREE THAT THE AGREEMENT ON A COORDINATED SYSTEM SHOULD BE MADE CONDITIONAL ON THE PARTICIPATION OF NON-IEA COUNTRIES. BUT WE THINK THERE IS EXCELLENT CHANCE THAT FRANCE WILL SUBSCRIBE TO THE EC COMMISSION PROPOSAL FOR EC COOPERATION ON ACCELERATED DEVELOPMENT WHICH APPEARS COMPATIBLE WITH AND INDEED SUPPORTIVE OF THE APPROACH SKETCHED OUT ABOVE.

8. CLEARLY, THE AGREEMENT IN PRINCIPLE CANNOT COVER THE SPECIFIC MODALITIES OF THE VARIOUS ELEMENTS IN THE COORDINATED SYSTEM. THEREFORE THE G.B. DECISION SHOULD ESTABLISH A PROCESS AND SCHEDULE FOR THE EXAMINATION OF THESE QUESTIONS AND DECISIONS ON MODALITIES.

9. YOU MENTIONED POLITICAL DIFFICULTIES. WHAT IS AT STAKE NOW IS TO CREATE CIRCUMSTANCES IN WHICH THE CONFIDENTIAL

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INDUSTRIALIZED WORLD WILL NEVER AGAIN BECOME AS OVER-DEPENDENT ON IMPORTED OIL AS IT DID IN 1960S. IF THE UNITED STATES AND EUROPE DON'T MOVE TOWARDS LESSER DEPENDENCE, NOT ONLY THEY, BUT JAPAN, WILL BE THE LOSERS, SINCE THE PRICE OF OIL WILL NEVER COME DOWN. THE POLITICAL DIFFICULTY IN EACH COUNTRY WILL BE TO DENY OURSELVES THE THEORETICAL OPPORTUNITY FOR PRICES TO AGAIN DROP TO VERY LOW LEVELS. WE ARE SENSITIVE TO THIS DIFFICULTY AND WILL WISH TO COOPERATE WITH THE JAPANESE AND OTHERS TO DESIGN SCENARIOS TO OVERCOME IT. BUT SUBSTANTIVE AGREEMENT IS ESSENTIAL TO US BEFORE WE GO TO THE PREP COM.

10. ASSISTANT SECRETARY ENDERS AND I LOOK FORWARD TO HAVING OPPORTUNITY TO DISCUSS THESE QUESTIONS WITH YOU

IN GREATER DETAIL IN PARIS NEXT WEEK. I PLAN TO ARRIVE
IN PARIS ON THE EVENING OF MARCH 5 AND WOULD BE AVAILABLE
TO MEET WITH YOU THEN IF IT IS CONVENIENT TO YOU.END TEXT
FOR AMEMBASSY TOKYO

11. WE HAVE A CLEAR INTEREST IN NOT OFFENDING FOREIGN
OFFICE BY DEALING WITH MITI. IT IS ALSO IN OUR INTEREST
TO MAKE CLEAR TO GOJ AS A WHOLE WHAT WE EXPECT
TO COME OUT OF THE GOVERNING BOARD. PLEASE GIVE US YOUR

ADVICE ON HOW BEST TO FOLLOWUP NOW THAT OUR VIEWS ARE
BEING INSERTED FORMALLY TO TOYONAGA. IT WOULD SEEM
NECESSARY TO MAKE A FORMAL DEMARCHE TO THE FOREIGN
OFFICE FOLLOWING UP THE PRESIDENT'S LETTER BEFORE THE
WEEKEND. KISSINGER

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Message Attributes

Automatic Decaptoning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING AGENDA, ENERGY, POLICIES, PERSONAL OPINION, ORGANIZATION & MANAGEMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 27 FEB 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchantr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE044058
Document Source: CORE
Document Unique ID: 00
Drafter: ORF:FSE:SWBOSWORTH:LER
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750068-0861
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975026/aaaaafiy.tel
Line Count: 183
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 75 TOKYO 2370
Review Action: RELEASED, APPROVED
Review Authority: buchantr
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAY 2003 by ifshinsr>; APPROVED <08 OCT 2003 by buchantr>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IEA - MITI PROPOSAL ON GOVERNING BOARD DECISION
TAGS: ENRG, IEA
To: TOKYO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006